

# BELARUSIAN MONTHLY ECONOMIC REVIEW



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- A. Lukashenka took part in the Collective Security Treaty Organization summit.
- Credit liabilities of enterprises has increased.
- Stimulation of foreign investors' activity.
- Deficit of the consolidated budget.

## Politics: A. Lukashenka took part in the informal summit of the Collective Security Treaty Organization

In July, Belarusian Minister of foreign affairs S. Martynau met with the "EU 3" – Foreign Minister of Sweden C. Bildt and officials of the EU J. Solana and B. Ferrero-Waldner. The parties discussed the issues of the economic and political interaction and the prospects of easing visa regime for the Belarusian citizens. This meeting is a witness of the further development of the relationships between the parties. However, a more explicit trend is likely to be set at the turn of 2009-2010, when the period of suspension of the EU sanctions against Belarusian officials will be over and the provision of funds for the realization of the projects within the 'Eastern Partnership' will be started.

The informal summit of the Collective Security Treaty Organization took place in Kyrgyzstan. A previous summit, during which the documents on the establishment of the Rapid Military Reaction-Force were to be signed was ignored by the Belarusian delegation. However, in Kyrgyzstan despite Belarusian President took part in the summit these issues were not solved. Later on, the Secretary General of the CSTO N. Borduja stated that these "technical" problems will be arranged at the nearest official summit. However, currently unclear situation assumes that full-fledged participation of Belarus in the Russian military initiatives is likely to be a stake in the bilateral political bargaining.

## Real sector: Credit liabilities has increased

In the 1<sup>st</sup> half of 2009 real GDP grew by 0.3% yoy, having decelerated harshly in comparison to Jan-May (1.4% yoy), and in the 2<sup>nd</sup> quarter a decline by 0.4% yoy was recorded. In majority of main branches of the economy the growth rate in Jan-Jun was almost unchanged. Lower growth rates were mainly caused by growth deceleration in trade – retail commodity circulation in the 1<sup>st</sup> half grew by 2.6% yoy (by 4.6% yoy in Jan-May), while in June it dropped by 5.7% yoy. Thus the inertia in households' behavior has declined substantially.

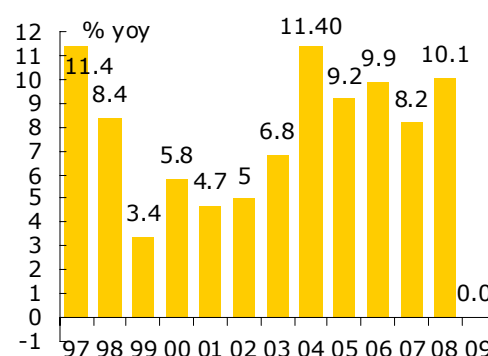
Increase of credit liabilities of the enterprises including overdue ones is going to become a serious problem. Credit liabilities in the entire economy in Jan-May grew by 27.3% yoy. Its biggest growth was peculiar to the transport branch (by 78.5% yoy), and also to the range of service branches and agriculture. The share of the overdue credit liabilities achieved 15.3% (11.9% in Jan-May 2008), while in transport, industry and agriculture it was 22.4, 19.4 and 18.5% correspondingly (6.7, 13.1 and 17.9 in Jan-May 2008). This cause an additional pressure on banks (the banks' outstanding loans in Jan-May grew by 52.2% yoy) and thus leading to feeling them the lack of liquidity.

## Structural trends: Stimulation the investment activity

In the 1<sup>st</sup> half of 2009 the majority of the industrial enterprises faced the sharp increase of the inventories. As of July, 1st the inventories achieved 94.6% of the monthly average output (more than USD 2.5 bn). In July A. Lukashenka assigned the government to undertake measures on inventories reduction. Among the government's measures, the approval of the list of the domestically produced goods and correspondent


**Population: 9.67 m**  
**Industry / GDP: 28.1%**  
**Agriculture / GDP: 8.4%**  
**Investment / GDP: 27.9%**  
**Export destination: Russia 32%, EU 44%**  
**Import origin: Russia 60%, EU 22%**

**Real GDP growth**



Source: Ministry of Statistics and Analysis. Forecast for 2009: IPM Research Center.

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producers that are eligible for the concessional consumer loans should be stressed. The problem of inventories alongside with the striving to hit the imports were likely motivations to the widely-discussed government's Resolution that actually banned wholesale trade and intermediation. However, it was cancelled under the President's requirement almost immediately. Furthermore, the government introduced a new control indicator – the ratio between growth rates of the sales revenues and output – which is aimed at reduction of the inventories through administrative measures. However, these measures are unlikely to provide the solution of the entire complex of problems related to the inventories, while both external and internal effective demand are definitely low and price-reduction methods of its stimulation has not been employed yet.

In August, a decree directed at stimulation of the investment activity was signed. It substantially eases administrative procedures and widens investors' rights when realizing investment projects based on the investment agreement. Besides, the investors having concluded the agreement are freed from imports custom duties, VAT and some other levies and payments to the consolidated budget. This decree will make investment activity in Belarus more attractive. However, the advantages caused by it are more likely to be realized in a post-crisis period.

#### Foreign trade: Belarusian Potash Company awarded a contract with India

In Jan-May, the merchandise deficit amounted to USD 3.2 bn, having increased by 1.8 times yoy. The decline of exports (by 48.0% yoy) was still bigger than those of imports (by 33.3% yoy). Separately in May, these negative trends were almost unchanged.

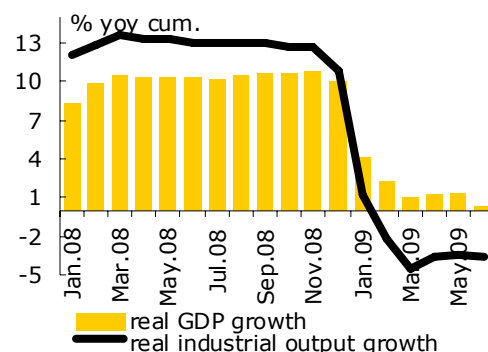
In May, the supply of a range of important goods was lower rather than in April. It was mainly consequent to the low demand on the Belarusian investment and intermediary goods in Russia, and deficit with this country achieved USD 3.7 bn. The physical supply of truck-tractors decreased by 48% mom, trucks by 42% mom, spares for cars and tractors by 10% mom. Belarusian authorities reckon on reduction of the deficit in trade with Russia and weakening the budget pressure on providing subsidies to oil-traders due to the cancellation of the special export oil duty for Belarus used by Russia. The government hopes to agree on it as the part of the establishment of the custom duty among Belarus, Kazakhstan and Russia.

The physical supply of major raw goods increased in May – potash fertilizers by 25.3% mom, ferrous metals by 28.0% mom, and oil products by 8.5% mom. It led to the surplus in trade with non-CIS countries in May of USD 163 m, though in Feb-Apr there was a deficit. Further improvements are possible due to the supply of potash fertilizers, which was miserable in the 1st quarter because the contracts with India and China were over and the new contracts were being negotiated. In July, Belarusian Potash Company achieved a price compromise with India at USD 460 per tone, while in 2008 it was USD 625 per tone. Since the share of supply to India in trade with the potash fertilizers is about 25% (in 2008), hence the boost in its supply will somehow facilitate to the dynamics of the Belarusian exports in comparison to the 1st half of 2009.

#### Public finance: Deficit of the consolidated budget

In Jan-May, consolidated revenues amounted to 46.8% of GDP, which is by 8.6 percentage points lower than in the previous year. Consolidated expenditures reduction was much lower – by 1.6 percentage points – and amounted to 46.9% of GDP. Hence, the consolidated deficit of 0.1% of GDP took place (while in Jan-May 2008 a surplus of 7.0% of GDP was

#### GDP and Industrial Output



Source: National Statistical Committee.

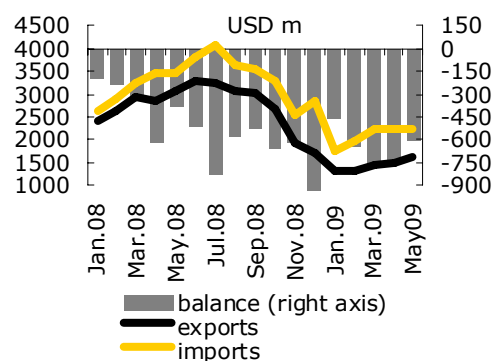
#### Contribution to Industrial Output Growth

Jan-Jun 2009 r.	Growth, % yoy	Contribution to growth*
<b>Industry, total</b>	<b>-3.6</b>	<b>-3.6</b>
Electric power	-12.3	-0.7
Fuel	12.4	2.9
Ferrous metallurgy	-2.4	-0.1
Chemical and petrochemical industry	32.4	3.9
Machinery and metalworking	-24.6	-5.1
Logging, woodworking, pulp and paper	-24.4	-0.7
Building materials	-6.7	-0.2
Light	-12.3	-0.4
Food	2.3	0.3
Other	-27.2	-3.5

Примечание. Вклад в прирост – в процентных пунктах.

Source: National Statistical Committee.

#### Merchandise Trade



Source: National Statistical Committee.

recorded), which is the first time since 2005. However, the Republican budget still performs a surplus of 1.4% of GDP, which meets the IMF requirements.

Since July 1<sup>st</sup> the excises rates for tobacco and alcohol production were raised within the range of 0-15% and the excises for condensed gas used as the fuel were introduced. This measure will somehow improve the consolidated revenues. However, its contribution is not so big – according to the government's calculation it will be BYR 98.0 bn – while the deficit might be growing (the current level is BYR 52.3 bn).

### Monetary policy: Dollarization is rising

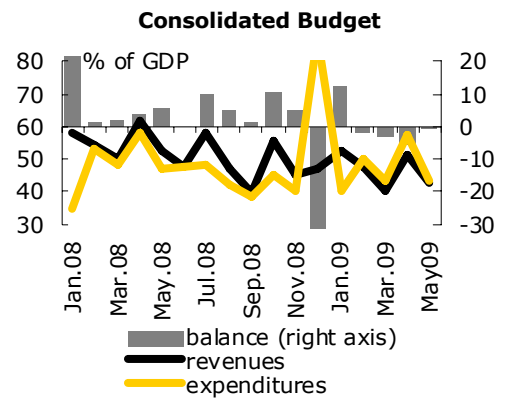
In June, net foreign assets of the monetary authorities declined by 18.2% mom (by USD 594.7 bn). At the background of the hard currency deficit, NBB refinanced banks actively, and hence, its claims on banks increased by 23.7% mom. Finally in June, base money grew by 0.3% yoy, while in annual terms it dropped by 21.5% yoy (by 13.3% yoy in April).

NBB's policy results in further gradual growth deceleration of providing loans to the real sector and more active banks' borrowings at the deposit market. In June, banks' claims on the real sector grew by 3.2% mom, while in annual terms its growth decreased down to 49.6% yoy (52.2% yoy in May). Alongside banks raised interest rates on loans, which in turn determined maintaining high deposit interest rates. However, the dynamics of the households' real income led to drop in the cash money demand, and lowering growth rates of households' deposits. Despite NBB recommendations on cutting interest rates on foreign currency deposits, both legal entities' and households' deposits were growing mainly due to foreign currency ones. Thus the problem of the financial dollarisation is becoming more urgent for the Belarusian banking system. Ruble money in June decreased by 0.4% mom, while in annual terms by 11.6% yoy (by 3.5% yoy in May). Broad money grew by 2.7% mom and 17.3% yoy (19.4% yoy in May).

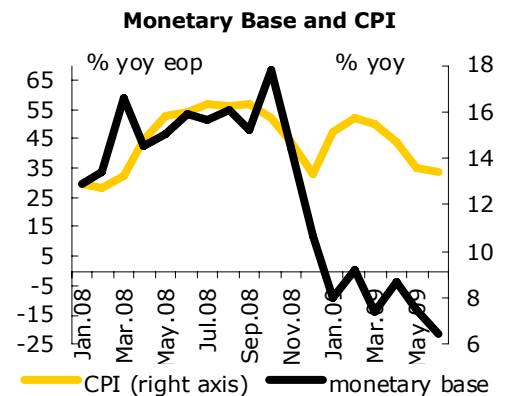
Consumer prices in June grew by 0.4% mom, while in annual terms the inflation amounted to 13.4% (13.6% in May). During Jun-Jul, Belarusian ruble depreciated to the NBB currency basket by 1.8%, being within the target corridor of the NBB. As of July, 31 its value to the currency basket amounted to BYR 1007.8 and against US dollar 2849 USD/BYR.

### Banking sector: A ban for providing loans in foreign currency to households

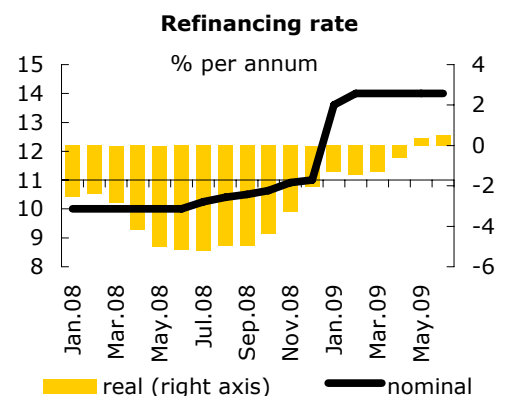
In July, NBB banned provision of loans in foreign currency to households. It is explained by the aims of de-dollarisation and reduction of banks' credit risks. Due to this measure NBB will be able to achieve de-dollarisation from the assets side. Moreover, it will pressure banks to further reductions of interest rates on foreign currency deposits, which might be an additional impulse for the de-dollarisation of the banks' liabilities. However, for the liabilities de-dollarisation a much broader complex of measures is required, directed at the increase in the trust to the national currency as the store of value, and to the elimination of the components of the real dollarization and payments dollarization. Absence of the complex approach may result in maintained dollarization of liabilities and increase in savings in cash foreign currency. The latter may cause a balance sheet effect in the banking sector, due to the mismatches between dominating currency in liabilities and assets and thus exposing banks to higher exchange rate risk. Thus, this measure might be effective only under a complex approach on de-dollarisation of the economy. From other view, it might be effective for restricting provision of loans to households, which may cause reduction of demand for consumer imports.



Source: calculations based on the National Statistical Committee data.



Source: calculations based on the National Statistical Committee and the NBB data.



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Apr. 09	May 09	Jun. 09
GDP growth	% yoy	8.4	7.3	10.9	10.1	11.2	7.5	1.1	-0.4	--	--	--
GDP growth	% yoy cum.	8.4	8.2	10.9	10.4	10.7	10.0	1.1	0.3	1.2	1.4	0.3
Industrial Production	% yoy cum.	8.2	8.5	14.7	13.0	13.1	10.8	-4.5	-3.6	-3.6	-3.4	-3.6
Agricultural Production	% yoy cum.	5.6	4.1	6.8	5.4	6.9	8.9	6.3	6.6	6.6	6.8	6.6
CPI	% yoy eop	9.0	12.1	13.2	16.0	16.3	13.3	15.5	13.4	14.7	13.6	13.4
PPI	% yoy eop	16.8	17.1	13.5	16.2	18.5	14.2	21.4	15.4	19.2	16.5	15.4
Merchandise export (USD)*	% yoy	18.5	44.4	69.2	56.0	44.9	-11.6	-48.8	--	-47.2	47.0	--
Merchandise import (USD)*	% yoy	23.8	42.4	56.5	55.3	53.1	-1.5	-32.0	--	-35.3	-35.2	--
Merchandise trade balance (NBB data)	USD m cum.	-2304	-3858	-647	-2049	-3835	-6104	-1779	-3799	-2496	-3081	-3799
Current account	USD m cum.	-1652	-2944	-433	-1411	-2920	-5049	-1866	--	--	--	--
Current account	% GDP cum	-5.1	-6.6	-3.6	-5.5	-6.6	-8.0	-18.2	--	--	--	--
International reserves	USD m eop	2155	4182	4746	4618	4120	3061	3955	2650	3565	3238	2650
Monetary base	% yoy eop	25	38	59	54	48	12	-14.2	-21.5	-3.6	-13.3	-21.5
Lending rate**	% p.a. aop	12	12	11	10	11	14	17	17	17	16	17
Exchange rate (official)	USD aop	2147	2152	2148	2136	2114	2147	2772	2809	2829	2778	2820
Exchange rate (official)	EUR aop	2948	3115	3215	3339	3183	2827	3614	3822	3732	3782	3954

\* Growth rates in value terms (source: Ministry of Statistics and Analysis).

\*\* Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2002	2003	2004	2005	2006	2007	2008
Nominal GDP*	BYR trn	26.613	36.565	49.991	65.067	79.231	97.165	128.828
Nominal GDP**	USD bn	14.5	17.7	23.1	30.2	36.9	45.2	60.3
GDP Growth	% yoy	5.0	7.0	11.4	9.4	9.9	8.6	10.0
Industrial production	% yoy	4.5	7.1	15.9	10.5	11.3	8.5	10.8
Agricultural production	% yoy	0.7	6.6	12.6	1.7	6.1	4.1	8.9
CPI	% yoy aop	42.6	28.4	18.1	10.3	7.0	8.4	14.8
CPI	% yoy eop	34.8	25.4	14.4	8.0	6.6	12.1	13.3
PPI	% yoy aop	41.4	37.5	24.1	12.1	8.3	16.2	15.6
PPI	% yoy eop	42.7	28.1	18.8	10.0	8.5	17.1	14.2
Exports (gs, USD)	% yoy	9.8	24.4	35.7	15.8	21.8	24.3	35.5
Imports (gs, USD)	% yoy	9.0	25.1	40.3	3.0	33.0	27.9	37.6
Current account	USD m	-311	-424	-1206	510	-1512	-2944	-5049
Current account	% GDP	-2.1	-2.4	-5.2	1.7	-4.1	-6.6	-8.0
FDI (net)	USD m	453	170	163	303	351	1770	2143
International reserves	USD m	457	474	770	1297	1383	4182	3467
Fiscal balance	% GDP	-0.2	-1.6	0.0	-0.6	2.2	0.6	0.9
Domestic public debt	% GDP eop	5.4	5.5	5.7	5.8	6.5	6.4	6.7
External debt (total)	% GDP eop	27.0	23.7	21.4	17.9	18.6	28.4	24.6
Monetary base	% yoy eop	32	50	42	74	20	38	12
Exchange rate (official)*	USD aop	1784	2075	2160	2154	2145	2146	2136
Exchange rate (official)*	USD eop	1920	2156	2170	2152	2140	2150	2200
Exchange rate (official)*	EUR aop	1690	2353	2684	2681	2692	2937	3135
Exchange rate (official)*	EUR eop	1989	2695	2956	2550	2817	3167	3077

\* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

\*\* For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

Sources: National Statistical Committee, Ministry of Finance, NBB, IPM Research Center.

#### Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date